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Federal Communications Commission
Office of Secretary

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	97-249
	)	97-250
Access Reform Tariff Filings	)	

REPLY COMMENTS OF
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), pursuant to the TRP Order,[1] hereby responds to the comments filed on its Tariff Review Plan (TRP) of November 26, 1997.[2] None of the comments raise any concerns that warrant suspension and investigation, let alone rejection, of SWBT's soon-to-be-filed December 17, 1997 rates.

I. SWBT's LINE PORT AND TRUNK PORT CALCULATIONS ARE CORRECT

AT&T claims that SWBT's use of the Switching Cost Information System (SCIS) is inappropriate[3] since SCIS is forward-looking and thus cannot be used to identify the amount of embedded costs associated with line and trunk ports.

AT&T's concerns are misplaced. The only available study for switching non-traffic sensitive (NTS) costs is SCIS. SWBT currently has no other cost studies or switching vendor information readily available for determining NTS costs. To otherwise gather and assemble this information would be unreasonably time consuming and costly. Each LEC would be required to obtain cost information from vendors for each switch. SCIS already contains the

[1] Support Material for Carriers to File to Implement Access Charge Reform Effective January 1, 1998, Order (DA 97-2358) (Com. Car. Bur. rel. Nov. 7, 1997) (TRP Order).

[2] Comments were filed by Sprint, MCI, and AT&T.

[3] AT&T at p.8.

information necessary to make the appropriate calculations. There would be no assurance that the data specified by AT&T would be any more accurate than SCIS or produce results that are different. Even though SCIS is a forward-looking tool, it contains cost information for the majority of switches used in SWBT's network. Thus, SCIS provides a very reasonable depiction of current NTS costs.

AT&T also asserts that the local exchange carriers (LECs) should be required to justify and document – by switch type and manufacturer – the investments that were included in the line port costs.[4] This request cannot be practically fulfilled. As AT&T is likely aware, such information has traditionally been considered proprietary. In the ONA Tariff proceedings, the switch costs were found to be the type of information that could reasonably be kept from public disclosure. In those proceedings, parties were only allowed to test the SCIS cost models that SWBT and other LECs used to calculate their rates. Because the switch prices were proprietary to both the LEC and the switch vendor, they could not be disclosed to the parties to the proceeding. The reasoning for such limitations is even stronger now. AT&T, MCI, and Sprint - the parties commenting in this proceeding - have all entered the local exchange business in competition with the LECs. Information about the cost of the LECs' switches would be extremely valuable to these competitors as they formulate their business plans. Thus, these costs should not be generally disclosed.

AT&T argues that once a price cap LEC has determined the line port investment to local switching investment ratio, it should apply the same percentage to the actual revenues in

[4] AT&T at p. 10.

the local switching band.[5] MCI claims that the LECs should apply the port cost percentage to local switching revenues, not the local switching revenue requirement shown in ARMIS.[6]

AT&T and MCI misinterpret the relevant order. Paragraph 128 of the Access Reform Order, required price cap LECs:

> to conduct a cost study to determine the geographically-averaged portion of local switching costs that is attributable to the line side ports . . . and to dedicated trunk side ports. These amounts, including cost support should be reflected in the access charge elements filed in the LEC's access tariff effective January 1, 1998.[7]

SWBT's filing complies with the order. There was no requirement in the order to reflect port costs as a percentage of revenues, or to apply such a percentage to actual revenues. No such requirement is cited by AT&T or MCI.

MCI claims that SWBT's $44M in line port costs is the lowest of any Regional Bell Operating Company (RBOC) and it is the only LEC to show trunk port costs that exceed its line port costs.[8]

The primary reason SWBT's trunk port costs exceed line port costs is that SWBT currently serves a large number of customers with analog switches. Currently, 40% of SWBT customers are served by analog switches. Likewise, the number of analog trunks is also significant. For analog switches, line port costs are significantly lower than comparable costs for

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[5]AT&T at p. 10.

[6]MCI at p. 4. AT&T claims that most LECs misapplied their line port investment percentages by applying them to an inappropriate local switching basket base – the percentage should be applied to the actual revenues in the local switching band. AT&T at p. 11.

[7]Access Charge Reform, CC Docket No. 96-262, First Report and Order (rel. May 16, 1997) (Access Reform Order), at para. 128.

[8]MCI at p. 5.

digital switches. Conversely, trunk port costs are higher than similar costs for digital switches. SWBT's studies show that the cost of an analog trunk port is almost 3-fold the cost of a digital trunk port. Thus, the existence of significant analog switching investments causes a lower percentage of cost to be associated with the line port and a higher percentage to be associated with the trunk port.

MCI claims that the Commission should require the LECs to adjust the costs of the SS7 and tandem trunk port components of the tandem switching revenue requirement consistent with the Access Reform Order's treatment of the overall tandem switching revenue requirement to reflect the impact of PCI adjustments since 1993. MCI asserts that the LECs should compute the percentage of tandem switching costs attributable to SS7 and tandem switch trunk ports, and then apply this percentage to the overall tandem switching revenue requirement computed per the Order.[9] Apparently, MCI is seeking to correct adjustments made by SWBT for SS7 and tandem trunk ports to reflect PCI changes.

MCI again attempts to add new requirements to the Access Reform Order. There were no requirements in the Commission's Access Reform Order to make such adjustments based on revenues in lieu of costs. Further, these adjustments, if implemented, would not significantly impact tandem costs. MCI's request should therefore be rejected.

MCI argues that for some LECs, it is unclear whether the demand for tandem trunk ports used in their computation of their tandem trunk port revenue requirement reflects only interstate demand.[10]

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[9]MCI at pp. 7-8.

[10]MCI at p. 9.

MCI raises a false issue. To calculate the total tandem trunk port costs, SWBT utilized total trunk ports used for access services multiplied by the interstate cost per trunk port. This calculation is shown in SWBT's Description and Justification, Exhibit 9B-1 and it correctly determines the total interstate trunk port cost.

MCI alleges that it is not clear if SWBT has deducted signaling transfer point (STP) port costs from the STP revenue requirement. MCI states that SWBT shows $2.9M in STP port revenue currently in the High Cap and DDS service category of the trunking basket, but has not deducted the associated costs from its revenue requirement computation.[11]

MCI incorrectly thinks that the $2.9M transfer of STP port costs recovery from the High Cap/DDS service category to the new STP port termination service category should be deducted from the SS7 costs removed from the TIC. The Commission did not specify that this was a requirement, and again, MCI cites no basis for such a requirement.

II. SWBT'S TIC CALCULATIONS ARE PROPER.

AT&T asserts that the Access Reform Order expected the recalculation of common transport to result in higher common transport rates and a reduced Transport Interconnection Charge (TIC).[12] AT&T argues that if LECs wish to reduce their common transport rates, they are free to do so, but should not be permitted to do so at the expense of increasing the TIC. MCI claims that several LECs, including SWBT, are putting money back

[11]MCI at p. 10.

[12]AT&T at p. 19, Exhibit E.

into the residual TIC as a result of recalculating their tandem switched transport rates based on actual minutes of use.[13]

Contrary to the allegations of AT&T and MCI, SWBT properly developed its common transport rates in compliance with the methodology provided in paragraphs 206 and 208 of the Access Reform Order, which directed the LECs to use actual minutes of use. In addition to the average usage per trunk, this methodology required the calculation of a revised DS3/DS1 facility mix and the use of current DS1 and DS3 rates. Therefore, even with an average usage per trunk significantly below 9000 MOU, tandem rates would have still been reduced.

AT&T contends that SWBT was required to establish a flat-rated charge for MUXs used between the tandem switch and the SWC, to be assessed pro-rata on purchasers of DS3 trunks on the serving wire center (SWC) side of the tandem.[14] AT&T further claims that the DS3/DS1 multiplexer referenced in SWBT's Workpaper 10A is assessed on users of Direct Trunked Transport between the SWC and the tandem switch and may not be set to recover the costs the new flat-rated multiplexing element is intended to recover. Finally, AT&T states that if SWBT were to begin billing the multiplexer rate element referenced on Workpaper 10A, SWBT's filing does not account for the reallocation of costs from the TIC to the tandem switched transport band.

SWBT's Tariff F.C.C. No. 73, at Section 6.8.3 (K), states that a DS3 to DS1 multiplexer charge always applies. SWBT currently applies the DS3/DS1 multiplexer charge whenever a DS3 entrance facility is muxed to a DS1. This rate application currently includes all

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[13]MCI at p.12.

[14]AT&T at pp. 24-26, Exhibit H.

tandem-switched transport arrangements whether the customer has selected the direct rating option between the SWC and the access tandem or the tandem rating structure (the unitary rate structure.)

Since SWBT has been charging the DS3/DS1 multiplexer charge in situations where the unitary rate structure has been selected, the requirement to establish a new rate element does not apply to SWBT. Likewise, the "revenue requirement" associated with this rate element, established with the effective date of local transport restructure (LTR), is not included in the TIC as it was removed via the LTR process.

AT&T complains that SWBT used the July 1, 1997 TIC instead of the June 30, 1997 TIC and that SWBT understated its TIC by $120M. As a result, according to AT&T, SWBT has failed to determine whether a TIC true-up to reverse the excess X-factor is required. AT&T asks that the LECs use AT&T's work paper format to recalculate their TICs.[15]

AT&T claims that LECs (including SWBT) did not use the June 30, 1997 TIC amount as a starting point for the calculation of the residual and facilities-based TIC amounts. Nevertheless, SWBT properly calculated both the actual residual TIC amount and the facilities-based TIC amounts as shown in Section 17 of its Description and Justification (D&J). The objective in this process was to calculate the TIC amount that remains after all access reform exogenous cost adjustments are made.

The second calculation that was required was a calculation of what the remaining facilities-based TIC should be. If the remaining TIC amount is equal to or greater than the calculated facilities-based TIC amount, no reversal of the 1997 Annual Filing TIC targeting is

[15]AT&T at pp. 29-30, Exhibit J.

required. The difference between the two amounts represents non-facilities-based costs. Therefore, if a reversal of targeting is required (because the remaining TIC is less than the calculated facilities-based TIC), the non-facilities-based TIC amount would be zero. The facilities-based TIC amount includes the remaining two-thirds of the 80% of tandem costs that are not as yet transferred to the Tandem Switching category and the estimated incremental revenue associated with the elimination of the unitary rate structure. As noted in Section 17, this facilities-based TIC amount was estimated to be $55M for SWBT. In Table 1 SWBT properly calculated that the remaining TIC amount, after removing all exogenous cost items is $85M. This amount was properly calculated by subtracting the exogenous costs from the <u>current</u> TIC amount of $129.7M. Since the facilities-based amount ($55M) is less than the remaining amount ($85M) there is no need to reverse any of the 1997 Annual Filing TIC targeting. Therefore, SWBT's method properly tested for the need to reverse target and properly calculated the facilities-based and non-facilities-based TIC amounts. There is no need to use, nor would it be proper to use the June 30, 1997 TIC amount in these calculations as AT&T states.

MCI argues that the Commission should determine whether the unexpectedly high usage per trunk now claimed by SWBT is due to the inclusion of intrastate minutes.[16]

This argument must be rejected. SWBT does not segregate its trunks by jurisdiction. Therefore, in calculating the usage per trunk it was necessary to include all usage. It is improper to only include interstate minutes. MCI cites no basis for such a requirement.

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[16]MCI at p. 13.

III. OTHER MISCELLANEOUS CLAIMS SHOULD BE REJECTED.

Sprint claims that SWBT is in violation of the Common Carrier Bureau's November 6, 1997 order. Sprint claims that the order requires the price cap LECs to populate form RTE-1.[17]

Sprint ignores the appropriate order. The November 7, 1997 TRP Order, at paragraph 4, states "Price cap LECs need not include in their November 26 submissions the following portions of the TRP: . . . (3) Chart RTE-1 . . . ."

IV. CONCLUSION.

For the foregoing reasons, SWBT's forthcoming December 17, 1997 tariff filing should be allowed to take effect on January 1, 1998.

Respectfully submitted,

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December 17, 1997

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[17]Sprint at p. 3.

CERTIFICATE OF SERVICE

I, Kelly Brickey, hereby certify that the foregoing "Reply Comments of SWBT", have been served on December 17, 1997, to the Parties of Record.

Kelly Brickey

December 17, 1997

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